



## At a 52-Week Low, This Defensive Name Could Be the Cherry on the Cake

### Description

At less than \$7 per share, **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) seems like a cheap stock. As astute investors are aware, though, the share price is not the most important thing. Instead, it is the ratio of price to profit, or price to free cash flow, that matters the most.

After falling to a 52-week low of \$6.81 this Monday, investors purchasing [this name](#) will have the opportunity to receive a dividend yield of more than 2.3% in addition to receiving quality assets at a price than is close to 70 cents on the dollar. Although the company has fallen out of favour due to its coal-fired assets, the reality is that the runway is very long between now and the time that these assets must be retired. Given the time value of money, as long as the company “front ends” the use of these assets, the value returned to shareholders may be much greater than expected.

Although shares have pulled back as of late due to the increase in interest rates, it is worth noting that the current price is near the long-term support level for shares of TransAlta. The short-term headwinds currently experienced by the company are no more than the result of investors who are sensitive to passive income taking money off the table (by selling shares) and re-deploying it in fixed-rate investments with much less risk than a security.

As a reminder, as long as dividend yields reward investors in a more lucrative fashion than risk-free treasury bills and government bonds, then investors will continue holding in an effort to achieve capital appreciation in addition to the passive income.

When comparing this name to competitor **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)), the big story may just be the total number of shares outstanding. Unlike its [competitor](#), TransAlta has focused on paying out a very low amount of free cash flow, which more easily allows the company to keep the total number of shares in check. Many utilities have very high payout ratios, which lead to major increases in the total number of shares outstanding and inevitable challenges regarding the sustainability of the company’s dividend down the road.

Although a high dividend is sometimes preferred by investors, the reality is that sometimes too much of a good thing becomes detrimental.

As the share price of TransAlta has declined, investors seeking long-term capital appreciation and dividend growth may have found the best security that many have been shunning for quite some time. Although the use of coal often gets a lot of attention during bull markets, during recessions, the focus moves elsewhere.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:TA (TransAlta Corporation)

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